

Innovative Finance and the Missouri Transportation Finance Corporation (MTFC)

The MTFC's authority to form and operate is derived from the Transportation Equity Act for the 21st Century (TEA-21) and the Missouri Not-For-Profit Corporation Law, RSMo Chapter 355. Under the authority granted by these statutes, the Commission organized the MTFC to assist in financing local transportation improvements.

The MTFC incorporated in August 1996, adopted bylaws and subsequently entered into a cooperative agreement with the Missouri Highways and Transportation Commission (Commission), the Federal Highway Administration (FHWA), the Federal Transit Administration (FTA) and the Federal Railroad Administration (FRA).

An eight-member board of directors will administer the MTFC. The board will consist of three members from the Missouri Department of Transportation, three members of the Commission and two at-large members with knowledge of business or finance. All board members are voting members. The board is responsible for the direction of the MTFC and approves all loans.

The Purpose of the MTFC

The MTFC will be used to provide direct loans for transportation projects within the state of Missouri. Loans may be funded from available MTFC resources. The MTFC assistance may be any type authorized by TEA-21. While state infrastructure banks have the authority to exercise all finance options included in TEA-21, the MTFC provides only direct loans. Resource Management staff must obtain pre-approval by the board to pursue other financing options authorized by TEA-21 or the MTFC Articles of Incorporation and a reduced cost of financing.

History of the National State Infrastructure Bank Program

The National State Infrastructure Bank program was created with the passage of the federal National Highway System (NHS) bill in November 1995. SIBs are designed to complement traditional federal-aid highway and transit grants by providing states increased flexibility for financing infrastructure. Missouri was among the first ten states authorized to establish SIBs under a "pilot program." To expedite the Federal Highway Administration (FHWA) approval process, Missouri created the MTFC as a non-profit corporation, which has no employees and reimburses MoDOT for services provided.

In 1996, Congress passed supplemental SIB legislation as part of the Department of Transportation fiscal year 1997 Appropriations Act that enabled additional qualified states to participate in the SIB pilot program. This legislation included a \$150 million general fund appropriation for SIB capitalization, of which Missouri's SIB received \$7.41 million. The Transportation Equity Act for the 21st Century (TEA-21) extended the pilot program for four states, including Missouri; the other states were California, Florida and Rhode Island.

Structure of the Missouri Transportation Finance Corporation

The national SIB program permits states to deposit a portion of their federal highway and transit funds into revolving loan accounts in their infrastructure bank. The combined initial

capitalization for the MTFC highway and transit accounts is \$59.66 million.

The MTFC was originally capitalized with a mixture of federal and state funds. Once deposited into the bank, federal funds lose their programmatic identity. The MTFC makes direct loans from its original initiating deposits and principal and interest payments from its loan portfolio.

At the direction of the board, securitization of the loan portfolio may be used by the MTFC to leverage its capital to make more loans available.

Types of Eligible Projects and Activities

Candidate projects for MTFC assistance include any highway project eligible for federal assistance under Title 23 of the U.S. Code and any transit capital project eligible for federal assistance under Title 49 of the U.S. Code. The MTFC can provide financial support to both public and private sponsors of eligible transportation projects, and can assist in financing any stage of the project's development. There are no federal share restrictions on the cost of the projects eligible to receive MTFC assistance.

- All FHWA functionally classified highways are MTFC eligible except for local or rural minor collectors.
- All bridges within the state that are included within FHWA's bridge inventory are also eligible.
- All mass transportation capital projects that would otherwise be eligible to receive federal funding are MTFC eligible projects.

Examples of potential projects could include:

- Road and bridge construction, reconstruction, rehabilitation, resurfacing, restoration and operational improvements for highways and bridges.
- Capital projects involving mass transportation.

Application Process

The program is open to any public or private entity with a transportation project that meets the TEA-21 eligibility criteria indicated above.

Initial written application is required for all entities 30 days prior to an MTFC meeting. For all entities the following is required:

- Written application
- Current budget

- Project plan
- Timing of the loan disbursement
- Dedicated revenue stream to repay the loan
- Form of collateral, if required by the board
- Potential legal claims and/or liabilities pending or a statement that indicate they do not exist
- Impact the applicant's ability to repay the loan

In addition to the items listed above, private entities will be required to provide the following:

- Audited financial statements from an independent CPA for the most recent completed business year
- Form of collateral

Resource Management staff will perform a preliminary evaluation of the application and required documentation. The staff will inform the applicant of initial concerns. The staff may ask the applicant to provide additional documentation to resolve any concerns identified by the board.

Prior to making recommendations to the board, the following will be evaluated when reviewing the application:

- Whether the borrower is a public or private entity
- Term of the loan
- Credit quality of the applicant
- Security pledged
- Dedicated revenue source
- Borrower's repayment ability
- Funds available in the bank
- Financial feasibility of a project
- Reasonable cost estimate of the project
- Beneficial to statewide transportation needs

Resource Management staff coordinates with MoDOT district and multimodal personnel to assure the quality of the project requested in the loan application.